

# EUROPEAN ECONOMY

COMMISSION OF THE EUROPEAN COMMUNITIES • DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS

Supplement A — No 10 — October 1986

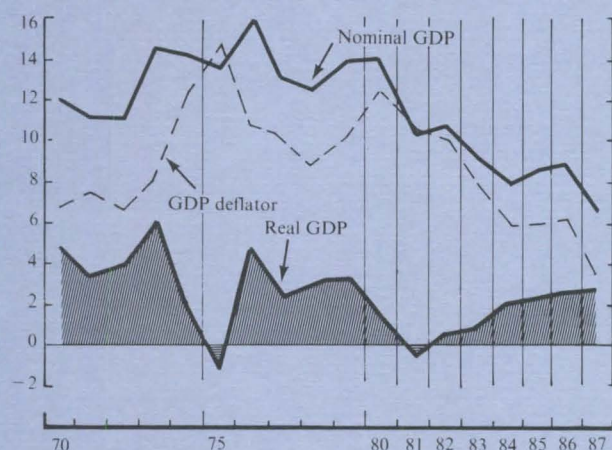
*In this number:  
Economic forecasts  
for 1986 and 1987<sup>1</sup>*

## Recent economic trends

The Commission's revised economic forecast for 1986 and 1987 has the following main features :

- Economic recovery in the Community is continuing. Domestic demand should grow at around 3,5 % a year.
- Exports to third countries are sluggish, while imports are expanding rapidly, resulting in a positive Community contribution to world demand.
- Under these circumstances, output growth will be limited to 2,5 % in 1986 and 2,8 % in 1987.
- Employment is expected to continue its modest growth (0,8 % in both 1986 and 1987), which would result in a slight decrease of the unemployment rate: from 11,9 % in 1986 to 11,7 % in 1987.
- Given the moderate trend of domestic costs, inflation may continue to slow down next year as well. The convergence in the performances of the various Member States is likely to improve further.
- The terms of trade gains will more than offset the negative external balance in real terms so that the current account surplus of the Community is expected to increase this year before starting to recede in 1987.
- The general government borrowing requirement is expected to contract noticeably in those countries where they are particularly high, but public debt weighs heavily on government finances.

GRAPH 1: Nominal GDP, deflator of GDP, real GDP  
(percentage change on preceding year, EC,  
1970-1987)<sup>1</sup>



<sup>1</sup> 1986-1987: forecasts.  
Source: Commission services.

**Lagged positive effects on net energy importers of changes in the international environment.** — In the Spring, when the oil-price and the dollar had already fallen and when the correction of the US federal budget deficit seemed to be under way, the prospects for the world economy in general, and the Community in particular, seemed favourable. It was suspected, however, that the negative effects of the changes might arrive before the positive ones.

Preliminary data for the first half of 1986 indicate that the first reaction of the world economy to the changes at the end of 1985 was indeed negative. First quarter GDP declined in many industrial countries, due partly to a further radical cutback in import demand by oil-producers, which had an immediate impact on the exports of developed countries. Nevertheless it is already evident that real incomes are increasing strongly in the Community and that an upturn in retail sales has begun in both Europe and Japan. Where second quarter GDP data are available, they too suggest a recovery.

**Moderate growth in the United States.** — The United States economy slowed even further in the first six months of this year. Although private consumption remains buoyant, investment has been falling and the flood of imports continues unabated. Monetary policy has been expansionary, and interest rates declined significantly between January and July. Although the process of cutting the federal budget deficit is continuing, the deficit at the end of the year will be substantially higher than estimated. The tax reform proposal is also well advanced. Most

<sup>1</sup> The following text summarizes the results of the Commission's Autumn forecasting round. The cut-off date for information used in the forecasts was 6 October 1986. The previous forecast for 1986 and 1987 was summarized in Supplement A, n° 6, June 1986.



TABLE 1: World GDP/GNP (at constant prices)

	Percentage change on preceding year					
	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
EUR	0,6	1,2	2,0	2,4	2,5	2,8
USA	-2,6	3,4	6,5	2,8	2,8	2,3
Canada	-4,4	3,3	5,0	4,5	3,3	2,8
Japan	3,1	3,2	5,1	4,5	2,0	2,4
Other OECD	1,0	1,8	3,9	3,6	2,5	2,4
OECD total	-0,3	2,4	4,3	3,0	2,6	2,5
OPEC	-0,2	-1,1	0,6	2,0	-1,0	1,0
Other developing countries	2,1	2,3	5,6	3,9	3,4	4,0
Other countries	1,9	3,9	3,9	3,3	2,5	2,0

<sup>1</sup> Forecasts.

Source: Commission services.

TABLE 2: World export prices<sup>1</sup>

	Percentage change on preceding year					
	1982	1983	1984	1985	1986 <sup>2</sup>	1987 <sup>2</sup>
Fuels	-3,8	-11,0	-3,5	-2,4	-44,9	-14,6
Other primary commodities	-11,1	1,5	-1,5	-10,5	3,2	-1,6
Manufactures	-2,5	-3,3	-3,7	-1,2	17,3	4,0

<sup>1</sup> Based on export prices in US dollars.

<sup>2</sup> Forecasts.

Source: United Nations and forecasts by Commission services.

forecasting bodies agree that it will reduce GNP growth by a significant amount (0,5 to 1 %) in 1987, although it is clear that it will have beneficial longer term effects on the allocation of resources. The fob/fob trade deficit is expected to reach USD 145 billion this year and not to diminish in 1987. Real GNP is expected to grow by 2,8 % and 2,3 % in 1986 and 1987 respectively (Table 1).

**Mixed prospects for other parts of the world economy.** — After growing at 4,5 % in 1985, Japanese GNP declined by 2,1 % at annual rates in the first quarter of 1986. In view of the negative effect of the yen appreciation on manufacturing, GNP growth this year is expected to fall to about 2 %, rising to about 2 1/2 % in 1987. Japan's export growth has begun to fade. The volume cleared through customs in the first seven months of 1986 was marginally lower than in the previous year. Import volumes have been increasing rapidly and in the same period were 12 % higher than a year ago.

In the remainder of the non-EC OECD the prospects are mixed. Some are faced with necessary adjustment policies, others may expect a strengthening of internal demand.

The situation for the Pacific industrial countries and in particular for South Korea and Taiwan, has been substantially improved by the revaluation of the yen and their consequent gain in competitiveness. Their growth rates are therefore expected to recover to the 5–10 % range after the pause of 1985.

Mexico, one of the losers from the oil price fall, has reached an agreement with its creditors. The other two major Latin American debtors, Brazil and Argentina, both of which introduced austerity plans at the beginning of this year, are now trying to correct a resurgence of inflation which threatened to upset their recoveries. Nevertheless the fall in the dollar and in interest rates is advantageous to them, and if they can maintain a greater degree of price stability, both are capable of rapid growth.

However, economic growth in the developing countries as a whole will remain sluggish partly as a consequence of depressed commodity prices and of the adjustment programmes that some debtor countries will have to implement.

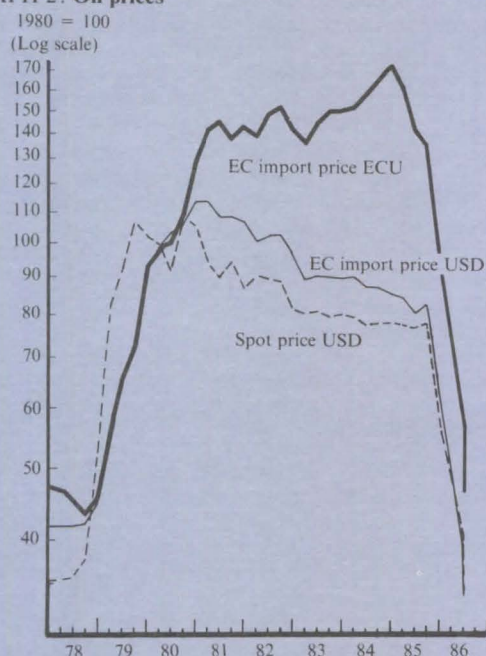
**Oil and raw material prices: no further substantial changes expected.** — As oil importers have taken advantage of the period of low prices to increase stocks, and as abundant supplies still exist in non-OPEC countries, it is probably reasonable to assume that the average export price of oil will fluctuate between USD 10 and USD 15, and to take the centre of this range (USD 12,50) as a technical working hypothesis.

Apart from a rise in the price of coffee caused by a drought in Brazil, commodity prices in US dollars have remained weak, notwithstanding the dollar devaluation. Stocks of most materials are abundant, and the weakness is likely to continue, limiting the import capacity of primary commodity exporters (Table 2).

**World trade to accelerate only slowly in 1987.** — Given the very large fall in imports by oil producing countries and the delayed growth of demand in OECD countries, world import growth excluding the Community in 1986 is now likely to be about 2 1/2 % and 3 % in 1987. Taking into account the buoyant import demand from the Member States, total world trade including the Community is forecast to rise by 3,8 % and 4,4 % in these two years (Table 3).

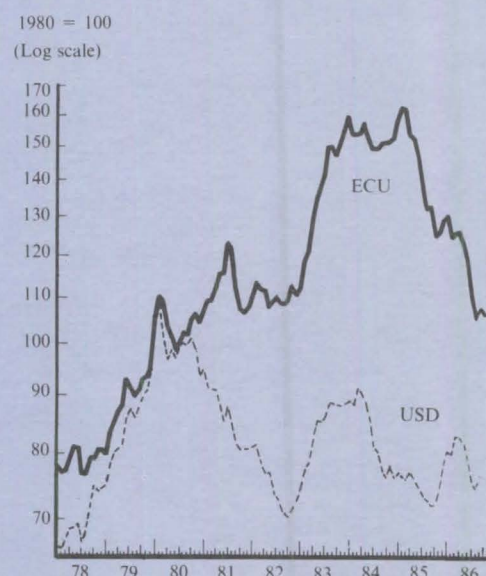
**World payments imbalances to persist.** — No easing of the international payments disequilibria is expected to occur before the end of next year. The lagged reaction of the US trade flows to the dollar depreciation has even led to an upward revision of the US trade and current balance deficit despite a lower dollar exchange rate. The deficit in the current account is now

GRAPH 2: Oil prices



Source: Commission services.

GRAPH 3: Non-oil primary commodity prices



Source: «The Economist» Commodity Price Index.

TABLE 3: World imports (at constant prices)

	Percentage change on preceding year					
	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
EUR	2.7	2.0	7.1	5.5	6.3	6.4
USA	-2.3	12.7	23.6	4.7	10.9	6.3
Canada	-16.0	14.0	19.1	7.5	5.5	3.6
Japan	0.5	-2.8	11.0	-1.9	8.5	6.4
Other OECD	2.1	0.8	10.1	6.2	5.4	3.7
OECD total	0.5	3.9	11.8	4.8	7.4	5.9
OPEC	5.1	-10.1	-7.4	-11.3	-25.0	-12.5
Other developing countries	-7.4	-0.4	6.0	3.3	1.8	3.0
Other countries	-0.8	2.6	4.7	3.0	-11.0	-2.0
World	-0.6	1.8	9.0	3.4	3.8	4.4

<sup>1</sup> Forecast.

Source: Commission services.

estimated at USD 140 billion in both years, while Japan is expected to run an annual surplus of around USD 80 billion (Table 4).

**Exchange rates and interest rates.** -- It was assumed in the Spring forecast that the downward trend of short-term US interest rates might come to a halt when considerations about inflationary risks would come to the forefront of policy making. This hypothesis is still retained, although in annual averages the level of US interest rates is likely to be lower in 1987 than in the current year (Table 5). By contrast, the outlook for average European interest rates is for a further decline, particularly in those countries where recent adjustment policies are beginning to show positive results.

The working hypothesis on exchange rates used in this forecast includes a DM/dollar rate of DM 2.00 at the end of 1987. In annual averages, the assumptions imply a depreciation of the

TABLE 4: World balances of current account (in billions of US dollars)

	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
EUR	-15.2	0.2	3.0	14.4	50.5	43.5
USA	-8.0	-46.1	-107.4	-117.7	-139.5	-140.5
Canada	2.1	1.4	1.9	-1.7	-5.4	-6.5
Japan	6.9	20.8	35.0	49.2	85.0	79.0
Other OECD	-9.9	-7.3	-4.2	-4.3	-6.0	-7.6
OECD total	-28.1	-23.3	-69.0	-60.0	-15.3	-32.0
OPEC	-10.9	-20.4	-7.9	1.4	-32.2	-24.8
Other developing countries	-67.4	-37.7	-22.4	-22.2	-22.3	-21.2
Other countries	7.9	10.9	10.9	5.0	-1.4	-0.7
Errors and omissions	-98.5	-70.5	-88.4	-75.8	-71.1	-78.6

<sup>1</sup> Forecasts.

Source: Commission services.

TABLE 5: Interest and exchange rates assumptions (annual averages)

	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
Annual rates of interest (percentage)						
Rates of interest (US)						
— Short-term <sup>1</sup>	10.6	8.7	9.5	7.5	6.3	5.5
— Long-term <sup>2</sup>	12.2	10.8	12.1	10.8	8.1	7.2
Change on preceding year (percentage)						
Exchange rate of USD						
— Vis-à-vis ECU <sup>3</sup>	13.5	9.8	13.4	3.7	-22.6	-5.5
— Vis-à-vis DM <sup>3</sup>	7.3	5.2	11.4	3.2	-25.9	-7.3

<sup>1</sup> 13-week US treasury bills.<sup>2</sup> US bonds over 10 years.<sup>3</sup> - (-) signifies an appreciating (depreciating) USD.

Source: Commission services.

dollar against the Ecu of 23 % in 1986 and of 5 % in 1987. The respective rates were 18 % and 1 % in the Spring forecast.

**Risks for the Community economy.** -- To sum up, the risks involved in the world economic situation for a further smooth development of the Community economy are evident. The need for correction of the US budget and external deficits continues to cast a shadow over the world economy. Related to this, the exchange rate outlook is highly uncertain. The extent to which oil exporting countries will have to cut further their import

TABLE 6: Rates of change of demand components and contributions to GDP growth (EC, 1974-87)<sup>1</sup>

	Percentage change on preceding period <sup>1</sup> at constant prices				
	1974-83	1984	1985	1986 <sup>2</sup>	1987 <sup>2</sup>
Private consumption	2.0	0.9	2.2	3.7	3.5
Government consumption	2.4	1.1	1.7	1.7	1.3
Fixed capital formation	-0.2	1.3	2.4	4.2	5.1
— Construction	—	—	-2.6	2.3	3.2
— Equipment	—	—	8.0	6.1	6.9
Exports of goods and services	4.2	7.6	5.7	2.2	3.7
Imports of goods and services	2.9	5.6	5.3	6.3	6.2
GDP	1.7	2.0	2.4	2.5	2.8
	8502	8601	8602	8701	8702
Private consumption	3.8	3.4	4.3	3.3	3.0
Government consumption	2.5	1.0	2.3	0.8	1.1
Fixed capital formation	3.8	3.1	6.8	4.3	5.0
— Construction	5.7	-1.5	6.6	1.8	2.8
— Equipment	1.9	7.7	7.1	6.8	7.0
Exports of goods and services	2.5	1.5	3.2	3.9	3.9
Imports of goods and services	3.3	6.4	9.0	5.4	5.4
GDP	2.8	2.0	3.3	2.6	2.7

Contributions to changes in GDP<sup>3</sup>

	1974-83	1984	1985	1986 <sup>2</sup>	1987 <sup>2</sup>
Final domestic demand	1.6	1.0	2.1	3.4	3.4
Stockbuilding	-0.2	0.3	0.0	0.4	0.2
Foreign balance	0.3	0.6	0.2	-1.2	-0.8
	8502	8601	8602	8701	8702
Final domestic demand	3.5	2.8	4.4	3.0	3.1
Stockbuilding	-0.4	0.7	0.6	0.0	0.1
Foreign balance	-0.2	-1.5	-1.7	-0.5	-0.5

<sup>1</sup> Half-yearly figures at annual rates, seasonally adjusted (8502 = second half of 1985 etc.).<sup>2</sup> Forecasts.<sup>3</sup> Change as percentage of GDP of preceding period.

Source: Commission services.

demand is difficult to foresee. Likewise, the oil price could be subject to important fluctuations. The world debt problem has not been overcome yet, but a rise in dollar interest rates, provoked by doubts about future inflation in the US, might aggravate it again. Assuming that these potentially adverse influences do not materialize, the Community economy could develop next year along the lines described below.

**The economic recovery in the Community continues.** -- The forecast of last Spring was prepared at a time when the effects of the substantial oil price and exchange rate changes which had occurred in the preceding months were not yet clearly reflected in the data available at that time. In the meantime the short-term consequences have started to take shape, while the magnitude of the shocks has further increased.

The present forecast tends to confirm the conclusions arrived at last Spring. In line with that reasoning, the new assumptions on oil prices and exchange rates have led to a significant revision of the composition of economic growth in the Community. The sources of growth are seen to shift still further from external to domestic demand. The latter is expected to grow by 3.8 % and 3.5 % in 1986 and 1987 respectively, and the net foreign balance would contribute negatively by 1.2 % and 0.8 % to the growth rate of GDP (Tables 6 and 8, Graph 4). Given the extraordinary changes in the structure of overall demand, the expected stability in the rates of GDP growth is remarkable. Apart from the sluggishness in the first quarter of 1986, economic growth in the Community is forecast to run at a rate which is indeed very similar to that forecast in last Spring. For the year as a whole, real GDP is expected to grow by 2.5 % this year and by 2.8 % in 1987 (Table 7). This implies that the recovery which started in early 1983 will continue into its fifth year, which is a long cyclical upturn compared to previous cycles; however, its strength is still modest by historical standards.

**Smooth growth profile expected for 1987.** -- At the time of the Spring forecast economic activity in the Community showed signs of slackness. In fact, real GDP growth had been running at a seasonally adjusted annual rate of less than 1 % in the last quarter of 1985 and the first quarter of this year. This slowdown was attributed to the harsh winter and to weak exports, while lower oil and other raw material prices were supposed to stimulate domestic demand with a certain lag. Much of the output loss during the winter was indeed recouped later. Real GDP grew by about 6 % (seasonally adjusted annual rate) in the



second quarter. It is assumed in the forecast that growth will continue at a stable rate of between 2 1/2 - 3 % from the third quarter onwards until the end of next year.

**Trends in Member States not uniform.** — Looking at the performance of individual countries, the main factors making for growth differentials in the short-term context may be seen in the different degrees of pressure from macroeconomic disequilibria on economic policies and the relative weight of energy in national production.

The effects of recently announced adjustment policies are clearly reflected in the outlook for growth. Economic activity in Greece, Belgium and Denmark is likely to be subdued in the next 15 months for these reasons. (The measures announced by the Danish government in October to stimulate domestic saving are not included in the present forecast). Unlike other Member States, the economies of the two net energy exporters - the United Kingdom and the Netherlands - will not enjoy large improvements in their terms of trade. While growth will be

TABLE 7: Gross domestic product, volume (percentage change at constant prices on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	1,7	1,5	-0,1	1,4	1,5	2,0	1,3
DK	1,5	2,9	2,1	3,9	3,8	2,9	1,8
D	1,6	-0,6	1,2	2,6	2,6	3,1	3,2
GR	2,4	-0,2	0,3	2,6	2,1	0,5	-0,2
E	2,0	0,9	2,1	2,2	2,1	2,9	3,0
F	2,3	1,8	0,7	1,3	1,4	2,2	2,5
IRL	3,6	0,8	0,0	4,4	2,0	1,8	3,1
I	1,9	-0,5	-0,4	2,6	2,3	2,8	3,6
L	1,3	0,8	2,8	4,9	2,2	2,4	2,6
NL	1,6	-1,4	0,9	1,7	1,7	1,6	1,8
P	2,7	3,5	-0,3	-1,7	3,7	3,8	3,5
UK	1,0	1,5	3,4	1,8	3,7	2,3	2,7
EUR	1,7	0,5	1,2	2,0	2,4	2,5	2,8
USA	1,8	-2,5	3,6	6,4	2,8	2,8	2,3
JAP	3,6	3,1	3,2	5,1	4,5	2,0	2,4

<sup>1</sup> Forecasts.

Source: Commission services.

depressed in the Dutch case, the British economy is nevertheless expected to grow at the average Community rate, mainly because private consumption is likely to expand vigorously. The French economy has for several years been gradually strengthening and is now approaching the average speed of expansion, while Germany, Italy, Spain and Portugal will probably enjoy above-average rates of growth in both years.

TABLE 8: Final domestic demand, volume (percentage change at constant prices on preceding year, 1974-87)

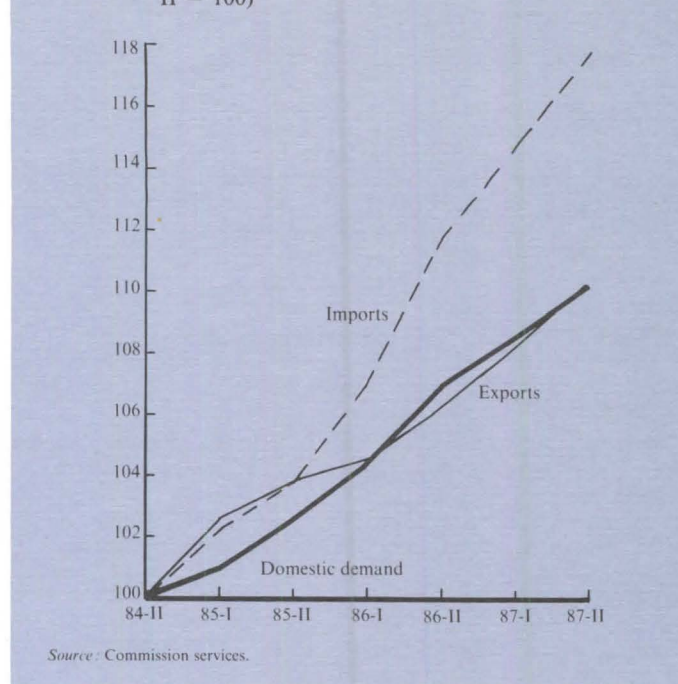
	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	1,1	0,1	-2,2	1,4	1,3	3,0	1,3
DK	0,4	3,0	1,1	4,9	5,3	4,1	1,8
D	1,3	-2,0	1,9	1,8	1,5	4,8	4,1
GR	1,8	1,4	-0,6	1,0	4,9	-0,8	-1,2
E	1,4	0,5	0,4	-1,1	2,4	4,9	3,9
F	2,3	3,9	-0,5	0,0	2,1	3,6	2,9
IRL	2,2	-3,4	-2,4	0,7	-0,4	1,5	2,5
I	1,2	-0,5	-1,4	3,1	2,4	3,6	5,1
L	1,8	0,3	1,2	3,4	1,8	3,0	3,0
NL	1,2	-0,9	0,7	1,0	2,2	2,3	2,4
P	1,7	3,2	-7,0	—	0,6	6,9	4,8
UK	0,7	2,4	4,4	2,4	2,8	3,2	3,2
EUR	1,4	0,8	0,7	1,7	2,2	3,8	3,5
USA	2,0	-2,0	4,5	8,3	3,4	3,5	2,2
JAP	2,6	2,8	1,7	3,9	3,6	3,7	3,5

<sup>1</sup> Forecasts.

Source: Commission services.

**Strong rise in real household income and buoyant private consumption.** — Turning to the components of domestic demand, the revisions to the earlier forecast are also minor on the Community level. In fact, the expansion of private consumption at constant prices has been revised upwards marginally to 3,7 % in 1986

GRAPH 4: Domestic and external demand, EUR 12, volumes (84-II = 100)



Source: Commission services.

and to 3,5 % in 1987. Real household expenditure is thus seen to grow at the average rate of the seventies. The contrast with the first half of the eighties is striking: private consumption is likely to expand in these two years by more than it had grown in the preceding six years (from 1979 to 1985: + 6,6 %; from 1985 to 1987: + 7,3 %).

The rise in real income behind this expansion of household expenditure is concentrated on the present year. Real disposable household income is estimated to grow by 4,2 % and 3,0 % in 1986 and 1987 respectively, after 1,7 % last year. Private households are thus expected to smooth down the fluctuation of income in their spending behaviour by saving a greater share of their income in this year and by returning to a lower saving rate in the next (saving rates in 1985, 1986 and 1987: 14,9 %, 15,2 %, 14,8 %). This assessment was already incorporated in the Spring forecast and has been confirmed by recent evidence on consumer behaviour.

Public consumption is likely to remain on the moderate path it has been following in the last couple of years, although some temporary expenditure measures in a few countries have led to a moderate upward revision of the rate of growth in 1986 (from 1,3 % in Spring to 1,7 %).

**Investment in equipment to remain quite strong - recovery in construction.** — Neither has the short-term outlook for capital formation undergone significant changes since last Spring. The investment climate is not likely to change noticeably: the liquidity and profit situation of enterprises is expected to remain favourable. The present forecast implies that the rate of return on the capital stock in the whole economy will improve further at least until the end of 1987. In fact, the ratio between the gross operating surplus and the capital stock (at replacement cost) is seen to rise to more than 80 % of its average level of the 1961-1973 period, while this ratio had fallen to about 60 % of that level in the early eighties. Besides, the degree of capacity utilization in industry is fairly high, and the prospects for consumer expenditure are favourable. In these conditions, investment in equipment at constant prices is expected to grow by 6-7 % in 1986 as well as in 1987.

The prospects in the construction sector have continued to improve moderately, and the greater part of the extraordinary output loss in the harsh winter 1985/1986 is expected to be recouped in the second half of the year. The annual growth rate of investment in construction may rise from 2 1/4 % this year to 3 1/4 % next.



TABLE 9: Export markets and export performance (percentage change on preceding year, 1985-87)

	Export markets			Export performance <sup>1</sup>		
	1985	1986 <sup>3</sup>	1987 <sup>3</sup>	1985	1986 <sup>3</sup>	1987 <sup>3</sup>
B	4,6	5,0	5,4	-2,3	-1,1	-1,2
DK	4,4	4,9	4,5	-0,4	-2,8	-1,3
D	4,6	4,2	4,8	3,1	-2,1	-1,7
GR	2,2	2,6	4,6	-2,3	0,3	0,4
E	2,6	2,9	4,2	1,9	-2,5	-1,6
F	3,3	3,5	4,8	-0,5	-2,9	-0,7
IRL	4,2	5,0	4,9	2,1	-2,9	0,1
I	2,8	2,5	3,7	4,4	1,9	0,3
L <sup>2</sup>	—	—	—	—	—	—
NL	3,0	5,0	4,7	2,0	-2,4	-0,2
P	4,9	5,3	5,4	5,5	-1,2	-1,4
UK	2,8	4,2	4,4	2,6	-2,1	-0,9
EUR	3,6	4,0	4,6	1,9	-1,7	-0,9
USA	3,4	2,7	4,0	-1,2	1,7	6,2
JAP	4,0	3,9	3,2	0,0	-9,0	-4,1

<sup>1</sup> Export growth divided by market growth.

<sup>2</sup> Included in the figures for Belgium.

<sup>3</sup> Forecasts.

Source: Commission services.

TABLE 10: Export price competitiveness<sup>1</sup> (1985-87)

	B	DK	D	GR	E	F	IRL
1985	1,8	4,7	0,6	-1,0	3,0	3,1	3,2
1986 <sup>2</sup>	5,8	6,5	15,2	1,7	5,6	3,7	3,0
1987 <sup>2</sup>	1,7	3,0	1,4	1,7	1,0	1,6	1,0
	I	NL	P	UK	EUR	USA	JAP
1985	1,4	1,2	1,3	3,5	1,9	0,1	0,0
1986 <sup>2</sup>	6,5	8,1	2,8	-1,3	7,2	-15,6	8,2
1987 <sup>2</sup>	1,5	1,3	0,2	0,2	1,3	-0,4	-0,9

<sup>1</sup> Percentage increase of country's export prices over that of competitor's export prices.

<sup>2</sup> Forecasts.

Source: Commission services.

TABLE 11: Exports of goods, volume (percentage on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	2,6	1,8	2,5	4,8	2,2	3,8	4,2
DK	4,6	2,0	5,9	5,1	3,9	2,0	3,1
D	4,1	3,2	-0,2	8,2	7,9	2,0	3,0
GR	6,3	-3,8	19,0	12,1	-0,1	3,0	5,0
E	8,5	7,8	8,3	19,5	4,5	0,3	2,5
F	5,2	-3,2	4,9	7,5	2,8	0,5	4,0
IRL	8,0	5,3	12,0	18,3	6,4	2,0	5,0
I	6,0	0,1	4,4	7,0	7,3	4,5	4,0
L	-0,5	-0,9	3,4	18,9	6,4	2,2	3,2
NL	2,6	-0,4	4,9	6,8	5,1	2,5	4,5
P	—	11,3	22,8	15,2	10,7	4,0	4,0
UK	3,2	2,7	1,8	8,2	5,4	2,0	3,5
EUR	—	1,2	3,2	8,4	5,6	2,3	3,7
USA	—	-10,3	-3,2	7,3	2,2	4,5	10,5
JAP	—	-2,3	8,7	16,0	4,0	-5,5	-1,0

<sup>1</sup> Forecasts.

Source: Commission services.

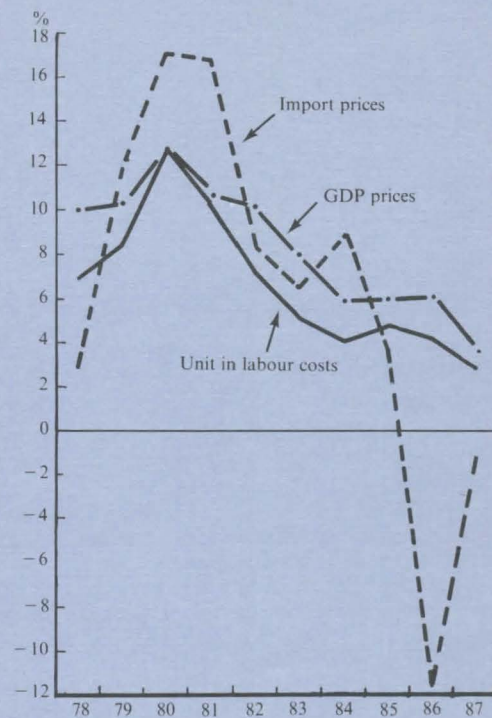
TABLE 12: Imports of goods, volume (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	1,9	-0,1	-0,2	4,9	1,7	5,5	4,2
DK	0,1	1,4	1,8	7,3	8,0	5,5	3,2
D	3,4	-1,2	3,1	6,6	5,0	8,0	6,5
GR	1,3	11,5	-1,3	5,6	13,3	-4,0	-1,0
E	1,7	3,7	-1,4	1,0	6,0	10,3	6,7
F	5,1	7,1	-0,8	2,9	5,8	6,5	5,5
IRL	3,7	-3,4	4,5	10,4	2,8	0,7	4,0
I	3,0	0,5	-0,1	9,4	8,8	7,9	9,9
L	0,9	-2,0	1,8	15,0	5,0	3,2	3,8
NL	1,5	1,0	3,0	6,7	5,9	3,5	5,5
P	—	6,1	-7,2	-2,7	3,0	12,5	8,2
UK	1,6	5,4	8,0	10,9	3,2	4,4	6,3
EUR	—	2,4	2,0	6,6	5,5	6,3	6,4
USA	—	-3,6	13,1	24,0	4,7	10,9	6,3
JAP	—	-0,5	1,2	10,8	-1,9	8,5	6,4

<sup>1</sup> Forecasts.

Source: Commission services.

GRAPH 5: GDP prices, unit labour costs and import prices, EC, 1978-1987, annual increase in %



Source: Commission services.

Stockbuilding was expected in the Spring forecast to be rather buoyant in 1986 in response to the fall of raw material prices; this view seems to be confirmed by recent evidence, with the change in stocks possibly contributing approximately one half of a percentage point to GDP growth in this year.

**Exports hit by weak markets outside the Community and loss of competitiveness.** — As for the prospects of the Member States' exports, a distinction needs to be drawn between markets within and outside the Community. The extra-EC markets as a whole will be depressed this year and next, while the intra-EC markets will be stimulated by the buoyancy of domestic demand in the partner countries.

In line with the outlook for world trade described above, the growth rate of the Community's export markets in third countries turns out to be similar in the present forecast to that of last Spring (1 1/4 % and 2 1/2 % in 1986 and 1987 respectively). This is a consequence of stronger import demand in some industrial countries outside the Community, which counterbalances the sharp downward revision of demand from the non-industrialized world. The Community's external markets are thus seen to grow by less than world markets outside the Community in general, which reflects the fact that important markets of the Community will be affected by substantial cuts of import demand.

The markets within the Community, on the other hand, are expected to expand by roughly 6 1/2 % in 1986 as well as in 1987. Total export markets could thus grow by about 4 % and 4 1/2 % in each of the two years (Table 9).

While the overall growth of export markets have not been affected noticeably between the two forecasts, export price competitiveness has. Expressed in a common currency, the Community's export prices in 1986 are seen to rise by 7 % more than the weighted average of the competitors' prices (Table 10). This figure was 4 % in the Spring forecast. Next year the Community would again lose in price competitiveness, although to a lesser extent (rise of 1 % in relative export prices).

TABLE 13: **Balance on current account** (as percentage of GDP, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	-1.8	-3.3	-0.6	-0.4	0.4	2.3	2.8
DK	-3.4	-4.2	-2.2	-3.3	-4.4	-4.1	-3.6
D	0.5	0.5	0.7	1.0	2.2	3.2	2.1
GR	-2.4	-3.8	-4.7	-4.1	-8.4	-5.8	-3.7
E	-1.9	-2.3	-1.4	1.3	1.7	3.5	3.7
F	-1.1	-3.0	-1.7	-0.9	-0.8	0.1	0.4
IRL	-8.6	-10.7	-6.9	-5.5	-3.2	-1.3	-1.3
I	-0.7	-1.6	0.2	-0.8	-1.1	1.2	0.9
L	21.7	26.7	29.1	30.2	29.6	31.5	30.7
NL	1.4	2.8	2.9	4.1	4.3	3.9	2.8
P	—	-13.5	-7.2	-3.0	1.8	5.4	4.2
UK	-0.2	1.5	0.8	0.4	1.0	-0.1	-0.6
EUR	-0.3	-0.8	-0.2	0.1	0.5	1.2	0.9
USA	-0.1	-0.3	-1.4	-2.6	-2.9	-3.5	-3.3
JAP	0.4	0.7	1.8	3.0	3.7	4.3	3.5

<sup>1</sup> Forecasts.

Source: Commission services.

It should be stressed that forecasting the price setting policies of export industries is particularly difficult in a time when exchange rates and relative prices of different categories of goods undergo substantial changes. One important issue in this context is the extent to which export prices can be expected to diverge from the trend in domestic costs. The figures for price competitiveness mentioned above imply a fall of the Community's average export prices in national currencies by 4 1/2 % this year and stable prices in 1987, while unit labour costs are forecast to rise by 4 1/4 % and 2 3/4 % respectively. Lower costs for energy will of course alleviate this discrepancy, but the degree of uncertainty with respect to the price behaviour of exporters remains high.

In any case, the Community's export volumes will probably rise by less than markets. Total exports of goods at constant prices are forecast to rise by 2.3 % and 3.7 % in 1986 and 1987 respectively, implying a loss of market shares of approximately 1 1/2 % this year and 1 % next (Table 11).

With domestic demand expanding vigorously, the volume of imports is forecast to grow by more than 6 % both this year and next (Table 12). The Community is thus seen to support the adjustment process in the world economy.

TABLE 14: **Deflator of private consumption** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	7.7	7.4	7.5	5.9	4.8	1.3	1.5
DK	10.6	10.8	7.2	6.6	5.0	3.3	2.8
D	4.8	4.7	3.1	2.4	2.1	0.0	1.1
GR	17.4	21.2	18.6	18.0	18.4	22.5	12.5
E	16.6	14.2	12.2	11.1	8.4	8.6	5.3
F	10.9	11.2	9.5	7.3	5.5	2.5	2.3
IRL	15.4	16.0	8.2	8.5	4.2	3.7	3.2
I	17.4	17.0	15.1	11.1	9.4	6.2	4.0
L	7.9	10.6	8.0	6.4	4.0	0.5	1.3
NL	6.5	5.3	2.8	2.6	2.6	0.0	-1.0
P	21.7	22.5	25.5	29.3	19.3	11.8	9.0
UK	13.5	8.5	5.2	5.1	5.3	4.0	3.9
EUR	11.5	10.4	8.4	7.0	5.8	3.7	3.0
USA	7.4	5.7	3.9	3.8	3.1	1.9	3.4
JAP	7.2	2.6	1.9	2.1	2.2	0.7	0.2

<sup>1</sup> Forecasts.

Source: Commission services.

**But terms of trade improvement causes temporary rise in trade surplus.** — Despite these adverse changes in the trade volumes, the surplus in the Community's trade balance for 1986 (fob/fob) has been revised upwards in the present forecast (to USD 48 billion), because the terms of trade will improve even more with the new assumptions on oil prices and exchange rates. This improvement may be of the order of 9 % in 1986 which, taken in isolation, is worth around USD 65 billion. Next year, the terms of trade could still improve moderately with present assumptions (+ 1.3 %), but since import volumes are expected

TABLE 15: **Deflator of gross domestic product** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	7.0	7.1	6.4	5.3	5.1	4.6	1.8
DK	9.9	11.3	8.1	5.8	5.4	4.8	3.7
D	4.5	4.4	3.3	1.9	2.2	3.9	1.4
GR	17.5	24.7	19.9	19.9	17.1	22.6	12.3
E	16.2	13.7	11.8	11.6	9.0	11.8	6.1
F	10.9	12.6	9.5	7.3	5.8	4.6	2.7
IRL	14.3	15.9	10.4	6.6	5.0	5.6	3.6
I	17.4	17.8	15.0	10.7	8.8	9.7	5.3
L	7.2	9.9	8.2	6.6	5.4	5.4	2.6
NL	6.3	6.0	1.6	2.6	2.4	0.4	-1.7
P	20.1	21.8	24.1	25.6	21.3	19.2	10.5
UK	13.9	7.5	5.0	4.4	5.8	3.9	4.2
EUR	11.5	10.6	8.2	6.7	6.0	6.2	3.5
USA	7.6	6.9	4.5	3.5	3.2	2.8	3.4
JAP	5.8	1.9	0.8	0.6	1.6	1.0	0.2

<sup>1</sup> Forecasts.

Source: Commission services.

to rise again significantly faster than export volumes, the surplus is seen to decline (to USD 41 billion). In both years the traditional large surplus on services and the usual important deficit in net factor income and transfers may be very similar in size, resulting in a current account surplus of USD 51 billion (1.2 % of GDP) this year and USD 44 billion next (0.9 % of GDP, Table 13).

**Inflation continues to decrease in 1987.** — The favourable assessment for the inflation outlook has not been altered. The average rise in the deflator of private consumption in national currencies (3.7 % in 1986 and 3.0 % in 1987) is practically unchanged from the Spring forecast (Table 14). On the one hand, import prices are likely to fall by more than expected in last Spring (Graph 5). On the other hand, this additional relief on the cost side is not assumed to be passed completely through to lower selling prices. The increase in the GDP deflator has indeed been revised upwards by more than one half of a percentage point (to 6.2 %)

TABLE 16: **Unit labour costs, whole economy** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	7.9	5.1	5.4	5.3	3.4	1.0	0.3
DK	9.5	8.7	4.7	3.2	4.1	4.0	4.5
D	4.2	3.1	1.1	0.7	0.8	2.1	1.1
GR	19.3	26.4	18.7	29.1	19.3	13.6	9.8
E	15.7	11.2	10.0	6.3	6.0	8.5	4.5
F	11.8	11.9	9.4	5.4	5.1	2.3	0.8
IRL	14.5	13.9	8.4	3.9	2.6	3.9	3.5
I	18.5	17.7	17.1	9.6	8.2	4.2	3.9
L	9.2	6.0	4.6	1.9	3.2	2.6	3.7
NL	5.8	4.6	0.2	-1.4	0.8	1.6	0.8
P	—	21.1	—	—	17.0	13.1	8.8
UK	13.5	5.6	4.4	5.4	4.8	6.0	4.7
EUR	9.6	7.2	5.1	4.1	4.7	4.2	2.8

<sup>1</sup> Forecasts.

Source: Commission services.

TABLE 17: **Compensation of employees per head** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	10.2	8.1	6.4	6.8	4.5	2.5	2.2
DK	10.9	11.4	6.5	4.9	4.4	4.0	5.9
D	6.5	4.2	3.8	3.2	3.0	4.1	3.2
GR	21.7	27.8	20.3	24.2	20.4	13.6	9.6
E	20.1	13.6	13.3	13.0	9.5	9.7	6.3
F	14.2	13.7	10.7	7.8	6.7	4.5	3.0
IRL	17.9	14.6	10.5	9.9	7.3	6.9	6.0
I	19.7	17.2	16.5	12.0	10.0	6.7	6.1
L	10.1	7.2	7.6	6.8	4.5	4.2	5.6
NL	7.9	5.8	3.2	0.8	1.4	2.1	1.7
P	—	23.9	21.6	19.8	22.0	17.1	12.3
UK	15.4	9.1	9.2	5.5	7.3	7.5	6.6
EUR	11.7	10.9	9.9	7.6	6.8	6.0	4.8

<sup>1</sup> Forecasts.

Source: Commission services.



TABLE 18: Per capita real compensation of employees <sup>(1)</sup> (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>2</sup>	1987 <sup>2</sup>
B	2,3	0,7	-1,0	0,8	-0,3	1,2	0,7
DK	0,3	0,5	-0,6	-1,6	-0,6	0,7	3,0
D	1,6	-0,5	0,7	0,8	0,9	4,0	2,1
GR	3,6	-5,4	1,5	5,2	1,7	-7,2	-2,6
E	3,0	-0,5	1,0	1,7	1,0	1,0	0,9
F	2,9	2,3	1,1	0,5	1,2	2,0	0,7
IRL	2,1	-1,2	2,1	1,3	3,0	3,1	2,7
I	2,0	0,2	1,2	0,8	0,5	0,5	2,0
L	2,1	-3,1	-0,4	0,4	0,5	3,7	4,2
NL	1,3	0,5	0,4	-1,7	-1,2	2,1	2,7
P	—	1,2	-3,1	-7,3	2,3	4,7	3,0
UK	1,7	0,5	3,9	0,4	2,0	3,4	2,6
EUR	0,1	0,5	1,4	0,6	0,9	2,2	1,7

<sup>1</sup> Deflated by private consumption prices.

<sup>2</sup> Forecasts.

Source: Commission services.

in 1986, and by somewhat less in 1987 (to 3,5 %, Table 15). By contrast, the outlook for the rise in unit labour costs has not been changed since the Spring (+ 4,2 % and + 2,8 % in the two years, Table 16).

Consumer price inflation is thus forecast to decrease further next year, despite much less support from falling import prices. The implied easing of domestic cost pressures rests upon the assumption that wage policies will remain moderate and that the rise of nominal wages in 1987 takes account of the lower rate of consumer price inflation. Compensation of employees per head is expected to rise by 4,8 % on the Community level in 1987, after 6,0 % this year (Table 17).

**Price convergence among Member States improving further.** — Parallel to falling average inflation rates, the convergence among Member States is seen to improve further. In fact, inflation is unlikely to fall again significantly next year in those countries where it has already been very low or virtually non-existent in the current year. A technical pick-up in some countries is even more likely. On the other hand, some governments in countries with still relatively high inflation rates are at present engaged in anti-inflationary programmes. Among these countries are Greece, Spain and Portugal, where inflation is expected to ease significantly. The highest rate of increase of consumer prices in 1987 among the other nine countries is forecast not to exceed 4 %.

**Higher purchasing power of wages, but recent trends of income distribution to continue.** — Among the uncertainties surrounding the forecast of last Spring was the question of how the upward shift in the level of income provoked by the fall in energy prices would affect the domestic distribution between labour and non-labour income. Recent evidence as well as present and foreseeable policies suggest that both categories of income are benefiting from the terms of trade improvement, but the process of readjusting the distribution in favour of non-labour income is likely to persist.

TABLE 19: Real unit labour costs<sup>1</sup> (percentage change on preceding year, 1974-87)

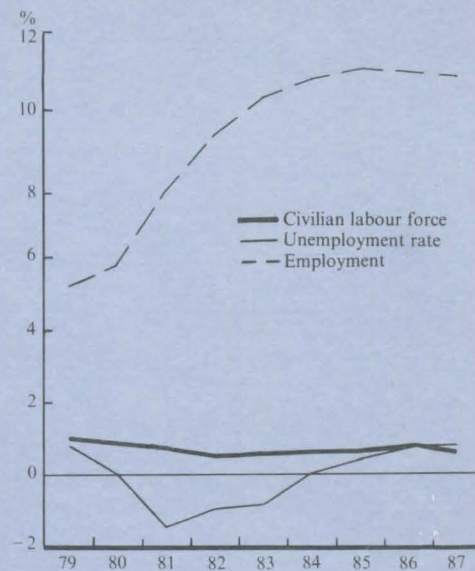
	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	0,8	-1,9	-0,9	0,0	-1,7	-3,5	-1,5
DK	-0,3	-2,3	-3,1	-2,4	-1,3	-0,8	0,9
D	-0,3	-1,2	-2,2	-1,2	-1,4	-1,8	-0,3
GR	1,5	1,3	-1,0	7,6	1,9	-7,3	-2,2
E	-0,4	-2,1	-1,6	-4,7	-2,8	-2,9	-1,6
F	0,8	-0,7	-0,1	-1,8	-0,6	-2,3	-1,9
IRL	0,2	-1,8	-1,9	-2,5	-2,3	-1,6	-0,2
I	0,9	0,0	1,8	-1,0	-0,5	-5,0	-1,3
L	1,9	-3,6	-3,4	-4,5	-2,0	-2,7	1,1
NL	-0,4	-1,3	-1,4	-3,9	-1,6	1,2	2,4
P	—	—	—	—	-3,5	-5,1	-1,5
UK	-0,4	-1,7	-0,6	1,0	-1,0	2,0	0,4
EUR	0,1	-1,1	-0,7	-1,2	-1,2	-2,0	-0,7

<sup>1</sup> Per capita real compensation of employees deflated by the GDP deflator, divided by labour productivity.

<sup>2</sup> Forecasts.

Source: Commission services.

GRAPH 6: Labour force, employment and unemployment, EUR 12, annual change in % except unemployment rate



Source: Commission services.

The nominal wage increases mentioned above imply a rise of the real purchasing power of wages per head by 2,2 % and 1,7 % in 1986 and 1987 respectively (deflated by consumer prices, Table 18). This is more than in any year since 1979. However, real unit labour costs (unit labour costs deflated by the GDP deflator) are seen to decline for the fifth and sixth consecutive year in 1986 and 1987 (Table 19). Wage moderation is expected to be particularly pronounced this year and next in Greece, Portugal, Spain, and Belgium.

**First signs of improving situation on the labour market.** — The prospects for the labour market have not changed significantly. Total employment is expected to grow by 0,8 % in 1986 and 1987, which is identical to the Spring forecast (Table 20). The decline in the number of jobs in the Community has thus come to an end. However, even this recovery in labour demand means that almost half of the number of jobs lost during the recession in the early eighties will still not be recouped at the end of 1987. The greater part of the new jobs will continue to be created outside the industry. However, for the first time since 1974, employment in manufacturing will rise this year and probably next (Table 21).

While the number of jobs is the same today as seven years ago, the labour force has kept on rising at an annual rate of between 0,5 and 1 %. As a consequence, the unemployment rate has

TABLE 20: Total employment (percentage change on preceding year)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	-0,4	-1,3	-1,0	0,0	0,5	0,3	-0,6
DK	0,2	0,3	0,4	2,2	3,1	1,9	0,3
D	-0,6	-1,7	-1,5	0,1	0,7	1,1	1,0
GR	0,3	-0,8	1,1	0,4	1,1	0,5	-0,0
E	-1,7	-1,2	-0,9	-3,9	-1,2	1,8	1,2
F	0,1	0,1	-0,5	-1,0	-0,3	0,1	0,3
IRL	0,6	0,2	-2,0	-1,3	-2,5	-1,1	0,7
I	0,8	-0,1	0,1	0,4	0,5	0,5	1,3
L	0,4	-0,3	-0,1	0,0	1,4	0,8	0,7
NL	-0,4	-2,5	-2,0	-0,5	1,1	1,1	0,9
P	2,0	1,1	1,1	1,1	-0,5	0,3	0,3
UK	-0,6	-1,8	-1,2	1,6	1,3	0,8	0,8
EUR	-0,2	-0,9	-0,8	0,1	0,4	0,8	0,8
USA	1,5	-1,1	0,7	4,4	2,0	2,2	1,7
JAP	0,7	0,8	1,7	1,0	0,7	—	—

<sup>1</sup> Forecasts.

Source: Commission services.

TABLE 21: **Employment in manufacturing industries** (percentage change on preceding year, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	-3.3	-3.6	-2.1	-1.0	-1.4	-0.3	-0.3
DK	-1.9	0.4	-0.4	5.2	6.6	4.4	2.1
D	-2.2	-3.7	-3.9	-1.1	1.0	1.6	1.2
GR	—	-2.7	-1.3	0.2	-0.6	0.2	0.0
E	—	-4.5	-2.4	-4.5	-2.2	1.0	0.9
F	-1.4	-1.4	-2.3	-2.8	-3.1	-1.4	-0.8
IRL	—	-2.6	-6.3	-4.2	-3.3	-0.5	1.5
I	-0.4	-1.9	-2.9	-3.6	-1.9	-0.2	0.3
L	—	-2.2	—	—	-0.3	-0.5	0.5
NL	-2.8	-4.6	-4.7	-2.7	1.5	1.0	1.3
P	—	1.4	—	—	-0.5	0.2	0.2
UK	—	-5.7	-5.5	-1.9	0.3	-1.3	-0.3
EUR	—	-3.4	-3.5	-2.2	-0.9	0.3	0.5

<sup>1</sup> Forecasts.

Source: Commission services.

more than doubled in this period. For the first time since the early seventies employment growth in 1986 and 1987 will exceed the rise in the labour force, and the average unemployment rate for the twelve countries is expected to decline marginally (from 12.0 % in 1985 to 11.9 % in 1986 and to 11.7 % in 1987, annual averages, Table 22). The corresponding number of unemployed is 15.9 million in 1986.

Again, this change in the trend of unemployment is not yet evident in some of the countries which have recently taken steps to correct domestic or external disequilibria. In fact, average unemployment is forecast to rise between 1986 and 1987 in Belgium, Denmark, Greece and France.

**Restrictive budgetary policies to be reflected more clearly in government finances.** Public finances are slowly responding

TABLE 22: **Number of unemployed as percentage of working population** (annual averages, 1974-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	8.6	13.0	14.3	14.4	13.7	12.9	13.4
DK	6.6	9.3	10.1	9.9	8.8	7.6	7.7
D	4.5	6.9	8.4	8.4	8.4	8.1	7.7
GR	—	—	7.8	8.1	7.8	7.6	8.3
E	—	17.6	19.1	20.6	22.1	21.7	21.5
F	5.8	8.7	8.8	9.9	10.3	10.5	10.7
IRL	9.4	12.3	14.9	16.6	18.0	18.4	18.0
I	7.0	9.7	10.9	11.9	12.9	13.4	12.8
L	0.7	1.3	1.6	1.8	1.6	1.3	1.2
NL	7.2	11.8	14.3	14.5	13.1	12.0	11.1
P	—	—	8.6	9.3	8.7	8.6	8.5
UK	6.3	10.6	11.6	11.8	12.0	12.0	12.0
EUR-12	—	—	11.0	11.7	12.0	11.9	11.7
EUR-9 <sup>2</sup>	6.0	9.3	10.3	10.8	11.1	11.0	10.8
USA	7.5	9.7	9.6	7.5	7.2	6.9	6.9
JAP	2.1	2.4	2.7	2.7	2.6	2.8	2.9

<sup>1</sup> Forecasts.<sup>2</sup> GR, E, P excluded.

Source: Commission services.

to restrictive policies. The net borrowing requirement of general government, which had reached a record level of 5.6 % of GDP in 1982 for the Community as a whole, is expected to decline to 4.7 % this year and to 4.1 % next (Table 23). The reduction of deficits should be concentrated in those countries where they are particularly high, although the budgetary situation remains precarious in some of them. Particular efforts are being made in Greece, where government borrowing is planned to fall by as much as 7 % of GDP between 1985 and 1987. Belgium, Spain, Portugal, Italy and Ireland are also adjusting budgetary policies vigorously; however, deficits in the two latter countries are seen to amount still to around 10 % of GDP or more in 1987. The fall in energy prices is reflected in the government finances of the United Kingdom and particularly of the Netherlands. In the Dutch case, the rise in the deficit would have been even stronger

had it not been for the introduction of compensatory spending cuts and tax increases.

On the Community level, the share of government expenditure in GDP, which had reached a record level in 1984 (50.4 % Table 24), is likely to decline further in 1986 and 1987. According to the forecast it will have fallen to 48.2 % by 1987. On the side of government resources the upward trend slowed down in the last few years, but it is not until 1986 that current receipts are seen to increase at a lower rate than nominal GDP. The share in GDP is forecast to be 44.1 % in 1987.

Given the size of net borrowing, government debt continues to rise at the Community level (to 61.8 % of GDP in 1987, Table 25). While a few countries manage to reduce or to stabilize the debt level in the forecast period (Denmark, Germany, the United Kingdom, Luxembourg), others are faced with a public debt exceeding one year's GDP, with a correspondingly high interest payments burden on the government budget.

TABLE 23: **General government lending or borrowing (—)** (as percentage of GDP, 1974-87)

	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	-11.1	-11.7	-9.5	-8.4	-8.0	-6.2
DK	-9.3	-7.3	-4.2	-1.9	2.8	2.8
D	-3.4	-2.5	-1.9	-1.1	-0.9	-0.7
GR	-9.4	-8.9	-10.1	-13.9	-10.6	-7.1
E	-5.3	-5.3	-5.0	-6.2	-4.9	-4.4
F	-2.5	-3.2	-2.9	-2.6	-2.9	-2.6
IRL	-14.2	-11.8	-9.8	-11.6	-10.7	-9.9
I	-12.7	-12.4	-13.0	-14.0	-12.7	-11.0
L	-1.3	-0.8	1.5	4.1	3.7	2.6
NL	-7.1	-6.5	-6.2	-5.1	-5.5	-6.6
P	-8.8	-7.1	-7.7	-11.2	-8.0	-7.5
UK	-2.4	-3.7	-3.9	-2.8	-2.9	-2.5
EUR	-5.6	-5.5	5.4	-5.1	-4.7	-4.1
USA	-3.5	-3.8	-2.9	-3.5	-3.4	-2.6
JAP	-3.6	-3.7	-2.2	-1.2	-1.0	-0.5

<sup>1</sup> Forecasts.

Source: Commission services.

TABLE 24: **Total public expenditure** (as percentage of GDP, 1982-87)

	1974-83	1982	1983	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
B	—	58.1	57.8	57.2	56.2	54.1	52.7
DK	—	61.1	61.7	60.9	59.5	56.2	55.3
D	—	49.4	48.5	48.2	47.2	46.1	46.0
GR	—	40.4	37.1	44.3	48.3	45.9	44.6
E	—	36.9	39.1	37.8	39.8	38.9	38.9
F	—	51.1	52.0	52.8	52.4	51.9	51.2
IRL	—	54.5	54.2	52.5	54.7	53.3	51.8
I	—	54.8	57.1	57.4	58.4	56.3	53.7
L	—	56.1	57.6	54.0	52.1	50.4	49.9
NL	—	61.3	62.5	61.6	59.7	59.8	59.4
P	—	39.1	40.7	39.6	40.8	42.1	41.5
UK	—	45.0	45.3	46.2	44.7	43.8	42.9
EUR	—	49.6	50.2	50.4	50.2	49.1	48.2

<sup>1</sup> Forecasts.

Source: Commission services.

TABLE 25: **Public debt<sup>1</sup>** (as percentage of GDP, 1974-87)

	1974-80	1981	1982	1983	1984	1985	1986 <sup>2</sup>	1987 <sup>2</sup>
B	64.8	88.1	96.1	105.1	111.6	118.3	121.9	125.6
DK	19.2	43.6	52.7	62.7	67.6	66.3	62.1	57.6
D	27.7	36.4	39.5	41.7	42.0	42.7	41.9	41.7
GR	—	33.0	36.7	41.4	49.9	56.8	58.4	61.2
E	13.8	21.0	26.2	32.1	39.3	46.3	48.8	52.5
F	25.4	26.0	29.1	30.7	29.3	31.8	34.0	35.0
IRL	76.2	89.8	96.6	107.7	113.6	115.7	119.1	124.8
I	67.7	73.2	80.0	87.6	94.5	103.0	106.3	108.1
L	15.9	14.0	14.4	14.8	14.8	14.5	13.8	12.8
NL	41.7	50.3	55.6	62.3	67.0	70.6	76.3	82.9
P	—	59.0	62.2	70.9	75.7	81.2	81.5	85.2
UK	56.6	51.1	57.7	57.4	58.7	56.9	57.9	58.0
EUR	—	45.0	49.8	53.5	56.0	58.9	60.3	61.8

<sup>1</sup> Gross public debt. General government except B, NL (general Government excl. social security) and GR, IRL (State), UK: at market prices. End of year figures.

<sup>2</sup> Forecasts.

Source: Commission services.



TABLE 26: Demand components at constant prices (percentage change on preceding year, EC countries, 1974-86)

	1974-83	1984	1985	1986 <sup>1</sup>	1987 <sup>1</sup>
<b>B<sup>3</sup></b>					
Private consumption	1.8	1.0	1.5	2.6	1.0
Government consumption	2.4	-0.1	1.5	0.2	-1.9
Fixed capital formation	-1.0	1.0	1.2	5.3	5.0
— Construction	-2.6	—	-0.4	2.1	2.2
— Equipment	0.4	—	3.6	9.5	8.4
Exports of goods and services	3.2	4.6	2.2	3.7	4.0
Imports of goods and services	2.3	4.8	1.9	5.3	4.0
GDP	1.7	1.4	1.5	2.0	1.3
<b>DK<sup>3</sup></b>					
Private consumption	0.8	2.8	4.3	4.5	2.8
Government consumption	3.4	-0.1	1.7	-0.2	1.5
Fixed capital formation	-3.3	12.8	14.6	9.8	-0.9
— Construction	-5.6	9.7	13.1	6.3	-0.7
— Equipment	1.3	16.0	16.5	13.7	-1.2
Exports of goods and services	3.8	3.5	3.6	1.7	3.0
Imports of goods and services	0.6	6.6	7.8	5.3	3.0
GDP	1.5	3.9	3.8	2.9	1.8
<b>D<sup>3</sup></b>					
Private consumption	2.1	1.1	1.8	4.9	4.2
Government consumption	1.6	0.9	2.2	2.5	2.5
Fixed capital formation	-0.1	0.8	-0.3	3.5	5.5
— Construction	-0.9	—	-6.2	0.7	3.5
— Equipment	2.0	—	9.4	7.5	8.0
Exports of goods and services	4.1	7.6	7.8	1.9	3.0
Imports of goods and services	3.2	5.2	4.6	7.9	6.4
GDP	1.6	2.6	2.6	3.1	3.2
<b>GR<sup>3</sup></b>					
Private consumption	2.8	1.1	3.2	0.1	-1.0
Government consumption	5.5	3.9	2.3	-0.5	-0.9
Fixed capital formation	-1.9	-4.7	3.4	-3.0	0.5
— Construction	-3.5	-7.7	2.6	2.0	1.6
— Equipment	0.5	-0.9	4.4	-9.0	-1.0
Exports of goods and services	5.2	11.6	-0.3	2.5	5.0
Imports of goods and services	2.0	-0.1	13.2	-3.6	-1.0
GDP	2.4	2.6	2.1	0.5	-0.2
<b>E<sup>5</sup></b>					
Private consumption	1.9	-1.0	1.3	3.6	3.2
Government consumption	5.0	2.0	3.5	4.0	2.0
Fixed capital formation	-1.0	-3.8	5.4	7.2	7.0
— Construction	—	—	1.5	6.0	5.8
— Equipment	—	—	12.0	9.0	8.8
Exports of goods and services	5.7	15.0	4.7	0.4	2.6
Imports of goods and services	2.6	0.0	6.2	10.2	6.8
GDP	2.0	2.2	2.1	2.9	3.0
<b>F<sup>2</sup></b>					
Private consumption	3.0	0.3	2.4	3.0	2.4
Government consumption	2.8	0.3	1.4	1.9	0.9
Fixed capital formation	0.6	-2.2	3.1	5.0	5.1
— Construction	-1.2	-4.4	-0.6	1.0	3.0
— Equipment	0.6	-1.5	5.1	6.9	6.0
Exports of goods and services	5.7	7.4	2.3	0.6	3.7
Imports of goods and services	5.6	2.3	5.2	6.1	5.2
GDP	2.3	1.3	1.4	2.2	2.5
<b>IRL<sup>3</sup></b>					
Private consumption	1.9	-0.5	1.6	2.1	3.3
Government consumption	4.5	-1.2	0.8	2.0	0.8
Fixed capital formation	1.8	-1.8	-0.3	-1.6	2.9
— Construction	—	—	-7.5	-4.5	1.3
— Equipment	—	—	5.5	0.5	4.0
Exports of goods and services	7.3	16.9	6.7	1.4	4.8
Imports of goods and services	4.0	9.5	2.8	1.0	3.9
GDP	3.6	4.4	2.0	1.8	3.1
<b>I<sup>2</sup></b>					
Private consumption	1.9	2.0	1.9	3.1	4.8
Government consumption	2.5	2.7	2.5	2.4	1.8
Fixed capital formation	-0.2	4.1	4.1	4.6	7.2
— Construction	-0.6	-0.4	-1.7	1.9	2.4
— Equipment	0.7	10.1	9.9	7.1	11.3
Exports of goods and services	5.6	6.2	8.2	4.4	4.2
Imports of goods and services	3.0	9.7	9.4	8.1	10.1
GDP	1.9	2.6	2.3	2.8	3.6
<b>L<sup>3</sup></b>					
Private consumption	2.8	0.6	2.0	3.3	4.0
Government consumption	2.8	0.4	1.0	1.4	1.1
Fixed capital formation	-1.2	-1.4	1.7	3.0	1.9
— Construction	—	—	0.7	2.1	0.8
— Equipment	—	—	4.0	5.0	4.0
Exports of goods and services	0.7	15.4	5.3	2.4	3.3
Imports of goods and services	1.3	13.5	4.9	3.1	3.7
GDP	1.3	4.9	2.2	2.4	2.6
<b>NL<sup>3</sup></b>					
Private consumption	2.1	-0.5	1.6	3.1	2.5
Government consumption	2.5	-1.6	1.1	0.4	-0.3
Fixed capital formation	-1.6	4.3	3.7	5.4	2.8
— Construction	-2.4	—	-3.3	4.1	2.4
— Equipment	0.0	—	13.7	7.0	3.3
Exports of goods and services	2.4	7.0	4.6	2.6	4.4
Imports of goods and services	1.7	5.9	5.7	3.9	5.5
GDP	1.6	1.7	1.7	1.6	1.8
<b>P<sup>4</sup></b>					
Private consumption	1.0	-3.0	0.7	4.9	4.2
Government consumption	6.8	1.8	1.6	1.6	1.5
Fixed capital formation	3.7	-18.0	-1.8	7.8	8.5
— Construction	—	—	-4.0	6.1	8.5
— Equipment	—	—	1.0	10.0	8.6
Exports of goods and services	6.2	14.7	12.0	5.2	5.2
Imports of goods and services	2.3	-3.2	3.3	11.9	7.8
GDP	2.7	-1.7	3.7	3.8	3.5
<b>UK<sup>3</sup></b>					
Private consumption	1.1	1.7	3.5	4.3	3.7
Government consumption	1.5	1.0	0.4	0.6	0.7
Fixed capital formation	-0.3	8.2	1.8	1.9	3.5
— Construction	-1.3	7.5	-3.1	2.8	3.0
— Equipment	0.6	9.7	7.8	0.9	4.0
Exports of goods and services	2.6	6.7	6.2	1.1	3.7
Imports of goods and services	1.6	9.2	3.0	4.4	5.6
GDP	1.0	1.8	3.7	2.3	2.7

<sup>1</sup> Forecasts.

<sup>2</sup> 1970 prices.

<sup>3</sup> 1980 prices.

<sup>4</sup> 1983 prices.

<sup>5</sup> 1984 prices.

Source: Commission services.

TABLE 27: Contributions to real GDP growth<sup>1</sup> (EC countries, 1974-87)

	1974-83	1984	1985	1986 <sup>2</sup>	1987 <sup>2</sup>
<b>B</b>					
Final domestic demand	1.4	0.8	1.4	2.5	1.1
Stockbuilding	-0.2	0.6	-0.2	0.4	0.1
Foreign balance	0.5	0.1	0.3	-0.6	0.1
<b>DK</b>					
Final domestic demand	0.7	3.6	5.2	4.2	1.7
Stockbuilding	-0.1	1.2	-0.1	-0.1	0.1
Foreign balance	1.0	-0.9	-1.3	-1.3	-0.0
<b>D</b>					
Final domestic demand	1.5	1.0	1.4	3.9	4.0
Stockbuilding	-0.1	0.7	0.1	0.7	0.1
Foreign balance	0.3	0.9	1.1	-1.6	-0.9
<b>GR</b>					
Final domestic demand	2.2	0.4	3.2	-0.5	-0.8
Stockbuilding	-0.4	0.5	2.0	-0.3	-0.5
Foreign balance	0.4	2.5	-3.0	1.3	1.1
<b>E</b>					
Final domestic demand	1.7	-1.1	2.5	4.5	4.0
Stockbuilding	-0.1	0.1	0.0	0.5	0.1
Foreign balance	0.4	2.8	-0.4	-2.1	-1.1
<b>F</b>					
Final domestic demand	2.5	-0.2	2.4	3.3	2.8
Stockbuilding	-0.1	0.2	-0.3	0.4	0.2
Foreign balance	-0.1	1.1	-0.7	-1.4	-0.5
<b>IRL</b>					
Final domestic demand	2.7	-1.0	1.0	1.2	2.7
Stockbuilding	0.1	1.8	-1.4	0.3	-0.2
Foreign balance	0.9	3.6	2.4	0.3	0.6
<b>I</b>					
Final domestic demand	1.5	2.5	2.3	3.1	4.6
Stockbuilding	-0.4	0.8	0.0	0.4	0.4
Foreign balance	0.5	-0.9	0.1	-0.7	-1.4
<b>L</b>					
Final domestic demand	1.7	0.1	1.7	2.8	2.9
Stockbuilding	0.1	3.4	0.0	0.2	0.0
Foreign balance	-0.5	1.4	0.9	-0.5	-0.3
<b>NL</b>					
Final domestic demand	1.3	0.2	1.9	2.9	2.0
Stockbuilding	-0.1	0.8	0.3	-0.6	0.3
Foreign balance	0.4	0.8	-0.4	-0.7	-0.6
<b>P</b>					
Final domestic demand	2.7	-6.6	0.3	5.4	5.1
Stockbuilding	0.0	—	0.3	1.8	0.1
Foreign balance	0.8	6.9	3.1	-3.3	-1.7
<b>UK</b>					
Final domestic demand	0.9	2.6	2.5	3.1	3.1
Stockbuilding	-0.2	-0.3	0.3	0.1	0.1
Foreign balance	0.3	-0.6	0.9	-0.9	-0.5

<sup>1</sup> Change as percentage of GDP of preceding period.

<sup>2</sup> Forecasts.

Source: Commission services.

Receipts from indirect taxes are likely to rise by more than those from direct taxes. This shift reflects deliberate policies and contributes to correcting the trend of a rising proportion of income taxes. In fact, while the burden of indirect taxes is the same in 1986 as in 1970 (13.4 % of GDP), that of direct taxes has risen in the same period by 3 percentage points of GDP (to 12.5 %).

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TABLE A.1: **Industrial production** (a) — Percentage change on preceding period (s.a.)

	1981	1982	1983	1984	1985	1985			1986		1986						Change over	
						II	III	IV	I	II	Jan.	Feb.	March	April	May	June	July	12 months % (b)
B	-2.7	0	2.0	2.5	2.4	0.9	0.9	2.0	0.8	0.5	0.1	1.3	4.1	-3.1	0.5	0.7	...	2.7
DK	0	2.7	3.2	9.7	4.2	2.8	5.0	1.8	-1.9	4.6	5.1	-2.5	5.8	15.2	7.0	0	0	3.3
D	-1.9	-2.9	0.6	3.0	5.7	1.0	1.9	0.7	-0.7	1.1	3.2	0.1	1.0	3.4	3.7	3.4	1.0	0.7
GR	-0.6	-4.2	-0.7	3.5	2.6	1.3	5.7	-1.1	-2.9	4.0	-1.1	0.6	-5.5	10.3	-5.5	4.3	...	6.5
E	-1.0	-1.1	2.7	0.8	2.2	-1.1	1.9	2.9	3.1	...	1.8	-0.7	-5.3	14.7	...	...	...	12.8
F	-2.3	-1.5	0.8	2.3	0.8	0.5	1.8	0	-1.2	1.3	0	0.8	0	3.8	-5.1	2.3	...	1.5
IRL	2.2	0.3	6.5	12.9	2.2	-1.4	-3.4	2.9	1.1	...	-0.4	2.1	3.2	-0.9	6.4	...	...	-5.5
I	1.6	-3.0	-3.2	3.4	1.2	0.1	-0.6	-0.4	3.1	1.5	1.5	2.8	3.1	1.5	-6.6	4.8	2.4	4.4
L	-5.7	0.9	5.4	13.3	6.9	2.5	-2.2	4.3	1.3	...	1.3	-0.1	-1.5	-1.1	3.5	...	...	7.5
NL	-2.0	-4.1	2.1	5.2	3.0	-2.8	-2.2	2.6	2.2	3.1	5.0	3.8	-2.8	1.9	8.3	4.0	1.9	3.7
P	0.5	4.6	1.6	-0.1	8.0	4.4	0.4	1.5	2.1	...	0.9	3.5	0.2	5.1	1.3	...	...	3.5
UK	-3.4	1.9	3.6	1.3	4.7	2.1	-0.5	0	0.7	-0.7	0.9	1.4	-0.3	0.8	2.1	-1.3	3.4	2.5
EUR 12	-2.1	-1.4	1.1	2.7	3.3	0.9	0.5	0.8	-0.3	(2.1)	1.1	0.7	-1.6	5.0	(-4.2)	(2.6)	...	(2.7)
USA	2.1	-7.4	7.8	12.4	2.6	0.4	0.8	0.5	0.5	(-0.3)	0.6	-0.8	-0.6	0.8	(-0.3)	(0.5)	(0)	(0.9)
JAP	1.0	0.3	3.6	11.1	4.6	2.2	-0.2	-0.9	0.2	(0.3)	0.2	0.2	-0.2	0	0.3	0.3	0.2	(1.5)

TABLE A.2: **Unemployment rate** — Number of unemployed as percentage of civilian labour force (s.a.)

	1981	1982	1983	1984	1985	1985			1986		1986						Change over	
						II	III	IV	I	II	Feb.	March	April	May	June	July	Aug.	12 months % (b)
B (f)	11.1	13.0	14.3	14.4	13.6	13.9	13.2	12.9	12.7	12.7	12.7	12.7	12.7	12.6	12.7	12.5	12.3	6.4
DK	8.7	9.3	10.1	9.9	8.6	8.8	8.5	7.9	7.7	(7.4)	7.7	7.8	7.3	7.5	(7.4)	(7.6)	(7.4)	(-11.8)
D	4.8	6.9	8.4	8.4	8.5	8.5	8.5	8.4	8.4	8.2	8.4	8.4	8.2	8.3	8.2	8.1	8.1	-4.3
GR	1.2	1.4	1.6	1.8	2.2	2.1	2.2	2.4	2.7	2.8	2.7	2.7	2.8	2.8	2.8	2.9	2.8	26.7
E	12.1	14.3	16.6	18.6	19.8	19.9	19.7	20.1	20.3	20.3	20.2	20.4	20.4	20.3	20.2	20.3	20.2	3.2
F	7.7	8.7	8.8	9.9	10.3	10.4	10.4	10.2	10.2	10.4	10.2	10.3	10.4	10.4	10.4	10.5	10.5	2.8
IRL	10.2	12.3	14.9	16.6	17.6	17.5	18.0	17.7	17.6	17.7	17.6	17.7	17.6	17.7	17.8	17.9	18.0	1.3
I	8.0	9.7	10.9	11.9	12.8	12.7	12.9	13.2	13.4	13.7	13.5	13.5	13.6	13.7	13.8	13.8	13.8	8.1
L	1.0	1.3	1.6	1.8	1.6	1.7	1.6	1.5	1.5	1.4	1.5	1.4	1.4	1.5	1.4	1.4	1.4	-13.7
NL (f)	(8.8)	(11.8)	(14.3)	14.5	13.4	13.4	13.3	13.0	12.9	12.6	12.9	12.8	12.7	12.7	12.5	12.6	12.3	8.5
P	5.8	5.7	5.6	6.7	7.7	7.6	7.9	8.0	8.1	8.3	8.1	8.2	8.3	8.3	8.4	8.3	8.2	3.6
UK	(9.2)	(10.6)	(11.6)	11.8	12.1	12.2	12.1	12.0	12.1	12.2	12.0	12.1	12.2	12.1	12.2	12.2	12.2	1.2
EUR 12	(7.8)	(9.4)	(10.6)	11.2	11.6	11.6	11.6	11.6	11.7	(11.7)	11.7	11.7	11.7	11.7	(11.7)	(11.7)	(11.7)	(1.5)
USA	7.6	9.7	9.6	7.5	7.2	7.3	7.1	7.0	7.1	7.2	7.3	7.2	7.1	7.3	7.1	6.9	...	2.4
JAP (g)	2.2	2.4	2.7	2.7	2.6	2.6	2.6	2.8	2.6	2.8	2.6	2.7	2.9	2.7	2.7	2.9	...	15.7

TABLE A.3: **Consumer price index** — Percentage change on preceding period

	1981	1982	1983	1984	1985	1985			1986		1986						Change over	
						II	III	IV	I	II	Feb.	March	April	May	June	July	Aug.	12 months % (b)
B	7.6	8.7	7.7	6.3	4.9	1.3	0.7	0.3	0.2	0.1	0.1	-0.2	0.3	-0.2	0.1	0	0.1	0.8
DK	11.7	10.1	6.9	6.3	4.7	1.5	-0.1	0.8	-0.1	3.3	-0.1	0.4	2.6	0.7	0.1	0.7	(0.5)	(4.3)
D	6.3	5.3	3.3	2.4	2.2	0.6	-0.2	0.3	0	0.3	0.2	-0.2	0.1	0	0.2	0.5	-0.2	-0.4
GR	24.5	21.0	20.5	18.3	19.4	4.5	2.6	9.7	6.0	4.3	0.7	3.2	1.5	0.5	1.7	-0.5	0	24.2
E	14.6	14.4	12.2	11.2	8.8	1.9	1.0	1.9	3.9	1.1	0.5	0.4	0.2	0.2	0.9	1.0	0.3	9.5
F	13.4	11.8	9.6	7.3	5.9	1.8	0.9	0.6	0.1	0.7	0.2	0.2	0.4	0.2	0.3	0.1	0.1	2.0
IRL (h)	20.4	17.2	10.4	8.6	5.4	1.3	1.5	0.2	1.6	1.2	(0.5)	(0.4)	(0.4)	(0.4)	(0.1)	(0.1)	(0.1)	3.1
I	17.8	16.5	14.7	10.8	9.2	2.4	1.2	2.2	1.6	1.0	0.4	0.5	0.3	0.5	0.1	0.2	(0.2)	(5.7)
L	8.1	9.4	8.7	5.6	4.2	1.6	0.5	0.9	0.4	-0.6	0.4	0.5	-0.1	0	0.1	-0.2	-0.3	-0.5
NL	6.7	5.7	2.7	3.2	2.3	1.1	-0.1	0.6	-0.4	0.4	0.2	0.1	0.4	0	-0.4	-0.9	0.2	-0.3
P	20.0	22.7	25.1	28.9	19.6	3.4	1.1	3.0	4.9	2.3	1.3	1.2	1.3	0.5	0.3	0	1.0	11.5
UK	11.9	8.6	4.6	5.0	6.1	3.4	0.3	0.5	0.7	1.3	0.4	0.1	1.0	0.2	-0.1	0.3	0.3	2.4
EUR 12	12.1	10.7	8.6	7.4	6.1	1.9	0.6	1.1	1.0	0.8	0.1	0.2	0.4	0.2	0.2	-0.1	(0.1)	(3.3)
USA	10.3	6.2	3.2	4.3	3.6	1.2	0.7	0.9	0.2	-0.2	-0.3	-0.5	0.2	0.3	0.5	0	0.2	1.6
JAP	4.9	2.7	1.9	2.2	2.1	0.9	0	1.0	-0.5	0.3	0.4	0.3	0.3	0.7	-0.5	-0.3	0.2	1.0

TABLE A.4: **Visible trade balance** — fob/cif, million ECU (s.a.)

	1981	1982	1983	1984	1985	1985			1986		1986						Change over	
						II	III	IV	I	II	Jan.	Feb.	March	April	May	June	Aug.	12 months % (b)
B/L	-5418	3082	-2435	-4897	-3514	-581	714	811	-304	-199	-405	68	33	196	159	235	767	958
DK	-1475	-1866	740	-1108	-1538	-306	-279	-473	-450	-576	-176	-229	-46	-309	-136	-131	...	200
D	11239	21599	18501	24136	32963	8631	8742	9403	10809	13292	4003	3290	3516	4813	3609	4870	5243	1967
GR	-3951	-5826	-5800	-6048	-7266	-2341	-1621	-1590	-1938	-1452	-555	-724	-659	628	504	-321	...	569
E (i)	...	...	...	-6773	-5582	-1884	1054	1004	-993	...	-377	-253	363	-310	496	...	...	-138
F	-17283	-24457	-15628	-13130	-13428	3028	-3535	-3040	-2259	-3563	-403	-797	-1059	1576	1090	-897	...	-386
IRL	-2467	1574	-621	81	430	56	138	28	318	134	72	54	192	14	158	-10	42	22
I	-13554	-12513	-8516	-13849	-16130	-5911	-1589	-4105	-2849	149	1424	-661	-764	95	-196	-48	...	2054
NL	1320	3500	4499	4740	3874	1234	944	1085	1185	1531	342	809	33	464	535	532	...	149
P (i)	...	...	...	-3465	-2585	-723	-600	-548	-344	...	-221	-70	54	91	-174	...	...	211
UK	445	-3295	-9681	-14005	-11540	-2272	-2493	-2493	-3385	-3904	-371	-1151	-1863	-1121	1295	1488	1422	-479
EUR 10 (j)	-32033	-27515	-20422	-24080	-16127	-4681	509	2078	1012	5127	904	704	-596	1901	890	2336	...	3480
USA	-35538	43435	77911	154992	194856	-52180	-84864	47815	-47146	42163	-18465	-13466	-15215	-12695	-14731	14736	18216	-3205
JAP	7832	7034	23072	42599	60497	14548	15243	17299	16828	20300	6350	4605	5873	6785	8133	6244	7504	2383

TABLE A.5: **Money stock** (k) — Percentage change on preceding period (s.a.)

		1985							1986		1986							Change over	
		1981	1982	1983	1984	1985	II	III	IV	I	II	Feb.	March	April	May	June	July	Aug.	12 months "a (b)
B	(M2)	5.8	5.8	8.7	5.9	7.6	1.3	1.7	1.8	2.1	2.4	.	.	.	.	.	.	.	8.1
DK	(M2)	9.6	11.5	25.5	17.8	15.8	4.5	4.2	6.8	2.7	1.7	1.8	2.2	0.6	0.9	0.2	0.1	-1.5	11.0
D	(M3)	5.0	7.1	5.3	4.7	5.0	1.3	0.6	2.0	1.4	1.2	0.2	0.6	0	0.2	1.0	0.5	0.9	6.4
GR	(M3)	34.7	29.0	20.3	29.4	26.8	7.9	6.1	5.8	3.9	4.4	1.2	1.6	1.7	0.4	2.2	.	.	(21.9)
E	(ALP)	17.0	16.6	15.9	13.2	12.8	4.0	1.7	2.8	4.0	3.3	1.7	1.4	0.8	0.8	1.7	0.2	0.1	11.5
F	(M3)	11.0	11.4	11.5	9.4	5.0	0.5	2.1	0.7	2.9	-0.4	0.4	1.3	-1.0	0	0.6	0.2	.	5.0
IRL	(M3)	17.4	13.0	5.6	10.1	5.3	1.0	1.6	1.3	-1.7	2.0	-2.1	-1.3	-1.3	1.0	0.3	1.0	-1.0	-2.2
I	(M2)	9.9	16.9	13.3	12.1	10.8	3.2	3.2	2.0	1.2	(1.9)	0.1	0.6	0.5	(1.1)	(0.3)	(0.6)	.	(8.0)
NL	(M2)	(5.3)	(7.6)	(10.7)	(6.8)	(10.5)	0.2	1.9	4.3	0.7	.	-0.6	1.1	.	.	.	.	.	5.1
P	(L)	23.8	23.9	16.1	23.9	(28.8)	(6.0)	(8.6)	(5.7)	(6.1)	.	(1.9)	(1.6)	(1.1)	(1.7)	.	.	.	(27.3)
UK	(LM3)	13.7	8.9	10.3	9.8	15.6	5.8	2.9	3.4	3.3	7.5	0.9	2.3	3.2	2.9	1.3	0.1	1.2	18.4
EUR 12 (d)		10.6	11.5	10.8	9.7	(9.8)	2.7	2.2	2.3	2.3	(2.5)	(0.5)	(1.2)	(0.6)	(0.9)	(0.9)	(0.3)	.	(9.4)
USA (M2)		10.0	9.4	11.7	8.2	8.1	1.8	2.3	1.4	1.0	3.1	0.3	0.6	1.1	1.0	0.8	1.1	0.9	8.3
JAP (M2)		11.0	7.9	7.3	7.8	8.7	1.5	1.0	2.6	2.3	1.6	0.7	0.9	-0.2	0.7	1.2	0.6	.	8.7



**TABLE A.6: Short-term interest rates (m)**

	1981	1982	1983	1984	1985	1985		1986		1986								Change over 12 months % (e)
						III	IV	I	II	III	March	April	May	June	July	Aug.	Sept.	
B	15.6	14.1	10.5	11.5	9.6	9.4	9.8	9.3	7.3	7.3	9.3	8.0	7.6	7.3	7.3	7.3	7.3	-2.1
DK	14.9	16.4	12.1	11.5	10.0	9.4	9.5	9.1	9.1	9.2	9.1	9.2	9.0	9.1	9.3	9.1	9.2	-0.2
D	12.3	8.8	5.8	6.0	5.4	4.7	4.8	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.7	4.5	4.6	-0.1
GR	16.8	20.2	19.4	15.7	17.1	16.5	17.9	21.8	22.1	15.8	21.8	21.8	21.9	22.1	21.4	17.4	15.8	-0.7
E	16.2	16.3	20.1	14.9	12.2	11.5	10.5	11.6	12.1	11.6	11.6	12.3	11.6	12.1	12.5	12.2	11.6	0.1
F	15.6	14.6	12.5	11.7	9.9	9.5	9.1	8.3	7.2	7.3	8.3	7.4	7.3	7.2	7.3	7.1	7.3	-2.2
IRL	16.6	17.5	14.1	13.3	11.9	10.1	11.7	14.5	9.0	11.0	14.5	11.3	10.3	9.0	10.8	10.6	11.0	-0.9
I	20.0	20.1	18.1	17.2	15.1	14.1	14.9	14.8	12.1	10.9	14.8	12.7	11.9	12.1	11.6	11.3	10.9	-3.2
NL	11.8	8.3	5.7	6.1	6.4	5.8	5.8	5.4	6.1	5.4	5.4	5.5	5.7	6.1	5.5	5.2	5.4	-0.4
P	16.0	16.8	20.9	22.5	21.0	22.2	18.6	16.9	15.2	15.1	16.9	15.0	15.8	15.2	15.1	15.3	15.1	-7.1
UK	14.2	12.2	10.1	10.1	12.3	11.5	11.9	11.4	9.8	10.9	11.4	10.4	9.9	9.8	10.0	9.8	10.9	-0.6
EUR 12 (n)	15.2	13.8	12.0	11.2	10.5	9.8	9.9	9.7	8.7	8.5	9.7	8.9	8.6	8.7	8.7	(8.4)	8.5	1.3
USA	14.0	10.6	8.7	9.5	7.5	7.3	7.2	6.6	6.2	5.2	6.6	6.1	6.2	6.2	5.8	5.5	5.2	-2.1
JAP	7.4	6.8	6.5	6.3	6.5	6.3	7.4	5.5	4.6	4.7	5.5	4.9	4.6	4.6	4.6	4.7	4.7	-1.6

**TABLE A.7: Long-term interest rates (o)**

	1981	1982	1983	1984	1985	1985		1986		1986								Change over 12 months % (e)
						II	III	IV	I	II	Feb.	March	April	May	June	July	Aug.	
B	13.8	13.5	11.8	12.0	10.6	10.3	10.4	9.6	8.4	7.9	9.4	8.4	7.5	7.9	7.9	7.5	7.2	-3.3
DK	19.3	20.5	14.4	14.0	11.6	11.8	11.1	9.9	9.5	10.2	9.6	9.5	9.2	10.1	10.2	11.0	11.4	0.8
D	10.4	9.0	7.9	7.8	6.9	6.9	6.3	6.5	5.9	5.9	6.2	5.9	5.5	5.8	5.9	5.9	5.7	-0.7
GR	17.7	15.4	18.2	18.5	15.8	15.8	14.2	15.1	15.1	17.1	15.0	15.1	16.7	17.2	17.1	17.9	18.2	4.2
E	15.8	16.0	16.9	16.5	13.4	13.8	13.9	12.3	12.2	11.0	12.3	12.2	12.1	11.5	11.0	11.5	11.5	-2.8
F	16.3	16.0	14.4	13.4	11.9	12.1	12.0	11.3	9.3	8.7	10.1	9.3	8.6	8.6	8.7	8.5	8.1	-3.9
IRL	17.2	17.0	13.9	14.6	12.7	12.4	11.9	11.8	9.4	9.3	10.7	9.4	8.6	9.2	9.3	10.7	10.8	-1.1
I	20.6	20.9	18.0	14.9	13.0	13.3	13.0	13.1	12.4	9.7	12.9	12.4	11.9	10.3	9.7	9.8	10.0	-3.5
L	8.6	10.4	9.8	10.3	9.5	9.6	9.3	9.3	9.1	8.7	9.2	9.1	9.0	8.9	8.7	8.4	8.1	-1.3
NL	12.2	10.5	8.8	8.6	7.8	7.8	7.4	7.5	6.9	6.9	7.2	6.9	6.5	6.6	6.9	6.8	6.5	0.8
P	22.6	25.3	30.4	32.5	25.4	32.5	25.1	22.1	20.3	19.4	20.9	20.3	19.3	19.8	19.4	16.4	16.0	-10.5
UK	14.8	12.7	10.8	10.7	10.6	10.7	10.3	10.5	8.9	9.3	10.0	8.9	8.8	9.2	9.3	9.5	9.4	1.0
EUR 12 (n)	15.2	14.5	13.0	12.3	10.9	11.1	10.7	10.5	9.3	8.7	9.9	9.3	8.9	8.8	8.7	(8.8)	8.7	-2.1
USA	12.9	12.2	10.8	12.0	10.8	10.4	10.7	9.6	8.0	8.2	9.1	8.1	7.6	8.0	8.2	7.9	7.7	-2.9
JAP	8.4	8.3	7.8	7.3	6.5	6.6	5.8	5.8	4.7	5.1	5.3	4.7	4.8	5.6	5.1	5.0	5.0	-1.2

**TABLE A.8: Value of ECU = ... units of national currency or SDR**

	1981	1982	1983	1984	1985	1985		1986		1986								Change over 12 months % (e)
						III	IV	I	II	III	March	April	May	June	July	Aug.	Sept.	
BFR/LFR	41.29	44.68	45.44	45.44	44.91	45.13	44.74	44.35	43.93	43.65	44.25	43.94	43.93	43.91	43.88	43.61	43.45	-3.5
DKR	7.92	8.15	8.13	8.15	8.02	8.07	7.99	7.98	7.96	7.94	7.98	7.95	7.96	7.96	7.97	7.93	7.93	-1.8
DM	2.51	2.38	2.27	2.24	2.23	2.23	2.20	2.17	2.15	2.11	2.16	2.16	2.15	2.15	2.13	2.11	2.10	-5.8
DR	61.62	65.30	78.09	88.44	105.7	104.5	127.7	133.2	135.0	137.9	134.4	134.8	134.7	135.3	137.1	137.7	138.9	30.0
PTA	102.7	107.6	127.5	126.6	129.1	131.0	135.8	136.2	136.9	137.0	136.0	136.6	136.8	137.4	136.2	137.0	137.7	4.0
FF	6.04	6.43	6.77	6.87	6.80	6.81	6.73	6.66	6.85	6.87	6.65	6.83	6.86	6.85	6.86	6.87	6.87	1.1
IRL	0.691	0.690	0.715	0.726	0.715	0.716	0.714	0.715	0.708	0.745	0.715	0.709	0.707	0.709	0.712	0.758	0.763	6.6
LIT	1263	1324	1350	1381	1447	1484	1494	1476	1476	1454	1470	1476	1476	1475	1464	1450	1448	-3.0
HFL	2.78	2.62	2.54	2.52	2.51	2.51	2.48	2.45	2.42	2.38	2.44	2.43	2.42	2.42	2.40	2.37	2.37	-5.4
ESC	68.5	78.0	98.7	116.3	130.2	132.8	138.4	141.3	143.8	149.0	142.0	142.4	143.9	145.2	147.0	149.2	150.8	11.8
UKL	0.553	0.561	0.587	0.591	0.589	0.570	0.595	0.642	0.636	0.681	0.651	0.634	0.635	0.638	0.656	0.687	0.698	21.3
USD	1.116	0.981	0.890	0.789	0.762	0.785	0.853	0.924	0.959	1.013	0.954	0.951	0.964	0.962	0.990	1.021	1.028	31.0
YEN	245.4	243.5	211.4	187.0	180.5	187.0	176.8	173.3	162.8	157.8	170.4	166.1	161.0	161.3	157.1	157.4	159.0	-14.3
DTS	0.946	0.888	0.833	0.767	0.749	0.764	0.791	0.821	0.828	0.842	0.830	0.826	0.826	0.826	0.832	0.845	0.849	8.1

**TABLE A.9: Effective exchange rates: export aspect (p) — Percentage change on preceding period**

	1981	1982	1983	1984	1985	1985		1986		1986								Change over 12 months % (e)
						III	IV	I	II	III	March	April	May	June	July	Aug.	Sept.	
B/L	-5.8	9.2	2.8	-2.1	0.7	1.0	1.6	1.8	1.3	1.2	0.4	0.7	0.1	0.1	0.3	1.0	0.5	6.5
DK	-7.5	-4.4	-0.6	-3.2	0.8	1.1	2.4	1.9	0.5	1.6	0.4	-0.1	0.2	0.2	0.4	1.5	0.2	7.2
D	-5.6	5.0	4.0	-1.3	-0.2	2.1	2.9	3.5	1.1	3.2	0.7	0	0.3	0.2	1.3	2.0	0.7	12.0
GR	-10.2	-8.0	-18.0	-14.0	-12.5	-4.0	-17.2	-2.9	-1.1	-1.2	-0.6	-0.7	0.1	-0.4	-0.9	0.2	-0.7	-20.0
E	-9.6	-6.0	-17.2	-2.2	-0.6	-1.8	-2.2	1.3	-0.3	1.2	0.7	-0.7	0	-0.4	1.4	0.2	-0.3	1.0
F	-8.8	-8.3	-7.2	-4.6	0.5	2.3	2.9	2.8	-3.0	0.6	0.4	-3.4	-0.3	0.1	0.2	0.6	0.2	3.2
IRL	-8.7	-1.1	-4.1	-4.0	0.6	1.1	2.6	3.0	1.1	-2.3	0.6	-0.1	0.5	-0.1	0.7	-4.5	-0.1	2.5
I	-12.4	-6.9	-3.8	-5.4	-6.2	-2.3	0.8	2.9	0.2	2.7	0.7	-0.8	0.1	0.2	1.2	1.7	0.5	8.2
NL	-4.3	5.1	2.1	-1.4	-0.2	1.9	2.3	2.8	1.1	2.7	0.6	0.1	0.4	0.2	1.1	1.8	0.5	9.7
P	-3.8	-12.9	-21.1	-17.1	-10.9	-2.9	-2.7	-0.5	-1.5	-2.2	0.1	-0.7	-0.8	-0.8	-0.7	-0.7	-0.8	-6.0
UK	0.2	-4.4	-6.9	-4.6	0.2	3.6	-2.7	-6.1	1.4	-5.7	0.3	2.4	0	-0.4	2.4	-3.9	-1.5	-13.8
ECU	-14.7	5.8	5.8	8.0	2.2	4.1	2.9	3.4	0.2	2.3	1.2	-1.0	0	0.2	0.9	1.5	0.5	10.1
USA	12.8	12.0	5.7	8.0	4.9	-5.7	-6.8	-5.9	-4.2	-3.9	-2.3	-0.5	-1.7	0.7	-2.4	-2.0	-0.3	20.0
JAP	13.6	-5.0	10.8	6.2	1.4	1.1	11.0	6.7	8.3	7.1	1.9	2.1	4.0	0	4.7	1.8	0.7	36.2

Source: for Community countries: Eurostat, unless otherwise specified; for the USA and Japan: national sources.

(a) National sources, except for the Community, Denmark, Ireland, Belgium and Luxembourg. Because of differences in methods of seasonal adjustment, the change in the EUR index, adjusted by Eurostat and given in Table 1 may differ from the change in the EUR index obtained by aggregating national indices. Data are adjusted for working days. They do not include building; data for France do not include food products and drinks.

(b) % change over 12 months on the basis of the non-adjusted nominal series of the most recent figure given.

(c) Change on corresponding month in previous year; seasonally adjusted.

(d) Change over 12 months in seasonally adjusted figures of the most recent figure given for each country.

(e) Difference in relation to the same month of the previous year.

(f) Changes in the coverage of these series occurred in 1984 for the Netherlands and in 1985 for Belgium.

(g) As % of total labour force.

(h) Monthly series calculated by linear interpolation.

(i) Unadjusted figures.

(j) The seasonally adjusted position for the Community does not correspond to the sum of other Member States; it is obtained by seasonal adjustment of the sum of gross figures for the various countries' exports and imports.

(k) National sources for Belgium, Denmark, Germany, Spain, France, Portugal and the United Kingdom; seasonal adjustment by Eurostat for Greece, Ireland, Italy and the Netherlands.

(l) Average of monthly changes, seasonally adjusted, weighted by GDP at 1980 prices and purchasing power parities. The monthly change in Belgium is obtained by linear interpolation of quarterly data.

## Principal economic policy measures - September 1986

### Community (EUR)

None.

### Belgium (B)

None.

### Denmark (DK)

None.

### Federal Republic of Germany (D)

24.9 The Federal government adopts a bill under which old age pensions are to increase by 3.7 % as from 1 July 1987. Since pensioners' health insurance contributions are to rise by 0.7 point, the net increase in pensions amounts to 3 %.

### Greece (GR)

2.9 The basis for the indexation of wages for the last four months of 1986 is fixed at 4.5 %.

3.9 With effect from 15 August, a 15 % price increase is imposed on the basic services provided by the principal public enterprises (electricity, telephone, water, air transport).

### Spain (E)

27.9 The central government budget for 1987 is tabled in Parliament. Central government expenditure will increase by 8 %, with public investment up 15.7 % and public debt interest charges down by only 0.2 %. It is estimated that total revenue will increase by 12.3 %, as receipts from direct taxation should grow by 11.5 % and revenue from indirect taxation should increase by 21.7 % (VAT receipts: + 32.1 %). The burden of taxation is projected to increase by almost 1.0 % of GDP. The central government deficit should be cut from PTA 1 438 million in 1986 to PTA 1 315.7 million in 1987 (3.7 % of GDP).

### France (F)

15.9 The Cabinet adopts the draft budget for 1987. With expenditure totalling FF 1 054 000 million, this budget projects a deficit of FF 128 600 million, FF 16 700 million down on the previous financial year. Expenditure will rise less rapidly than inflation: total expenditure by 1.8 % and civilian expenditure by 0.9 %, against an anticipated inflation rate of 2 %. Priority is given to expenditure on employment, defence, the national territory and the overseas departments and territories. With regard to revenue, taxation is cut by a total of FF 27 000 million, the first step in a FF 50 000 million tax-cutting programme for the years 1987 and 1988. The reduction for enterprises totals FF 11 000 million, as a result of corporation tax being lowered from 50 % to 45 % and a FF 5 000 million reduction in the business tax ('taxe professionnelle'). Personal taxation will be cut by FF 15 000 million.

25.9 The 20 % of the prices contained in the index which are still controlled will be liberalized in three stages, each covering 6 % or 7 %, at the end of October, the end of November and the end of December. A number of prices have already been decontrolled (notably those charged by travel agencies, the rent of second homes, prices of clocks, watches and jewellery, and of domestic fuel oil).

### Ireland (IRL)

15.9 Following the 8 % devaluation in August of the Irish pound within the EMS, the Irish green pound is devalued by 6 % in the case of animal products and by 3 % for other agricultural products.

### Italy (I)

15.9 One week after being cut by the large national banks the prime rate is reduced from 13.5 % to 13 % throughout the banking system. It now stands at one percentage point above the Bank of Italy's discount rate (12 % with effect from May 1986).

19.9 Under a decree law the Government decides to tax all future issues of public securities. The rate of tax will be 6.25 % until September 1987, and 12.50 % thereafter, i.e. the same rate as that chargeable on private sector securities. The tax will discharge individuals from further liability, while for legal persons the deduction will represent a tax credit.

### Luxembourg (L)

17.9 The Government tables the 1987 draft budget which it adopted on 1 August (see measures for July-August 1986).

### Netherlands (NL)

16.9 The Government tables the draft budget for 1987. Including items not covered by the budget, the draft discloses a net deficit of HFL 30 000 million (7.9 % of NNI), compared with HFL 25 700 million (6.8 % of NNI) for the updated 1986 budget. Nominal expenditure is down from HFL 169 300 million in 1986 to HFL 167 800 million while revenue is down from HFL 157 400 million to HFL 138 600 million because of the drop in natural gas revenue. The deterioration in the borrowing requirement is limited by a wide-ranging programme to offset the loss of revenue; the programme totals HFL 10 800 million, and consists of spending cuts of HFL 5 400 million, higher tax revenue of HFL 4 600 million (to come from reducing various tax allowances to enterprises, a one-point increase in VAT and an increase in the excise duties on mineral oils), and additional non-tax revenue of HFL 800 million from selling State holdings and from limiting falls in the retail price of natural gas.

### Portugal (P)

1.9 Old age and disability pensions, and pensions under the fishermen's scheme, are raised with immediate effect. Pensions paid out of the general social security scheme, which covers some 500 000 persons, are increased by 45 %, and pensions for agricultural workers (also 500 000 persons) by 27 %. The decision involves additional expenditure of ESC 9 000 million in 1986 and ESC 26 000 million in 1987 (0.5 % of GDP in 1987).

5.9 The official gazette publishes decree laws designed to stimulate regional development - 'Sistema de Estimulos de Base Regional' (SEBR) - and a regulation on state financial holdings

### United Kingdom (UK)

None.

### Prices (excluding VAT) in Luxembourg

	ECU	BFR	IRL	UKL	USD	
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